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INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHBY/AMEMBASSY CANBERRA 0865
RUEHBJ/AMEMBASSY BEIJING 1702
RUEHKA/AMEMBASSY DHAKA 4742
RUEHNE/AMEMBASSY NEW DELHI 4425
RUEHUL/AMEMBASSY SEOUL 7956
RUEHKO/AMEMBASSY TOKYO 5517
RUEHCN/AMCONSUL CHENGDU 1327
RUEHCHI/AMCONSUL CHIANG MAI 1355
RUEHCI/AMCONSUL KOLKATA 0194
RUEAIIA/CIA WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEKJCS/DIA WASHDC
RUEHGV/USMISSION GENEVA 3486
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RUEKJCS/JOINT STAFF WASHDC
RUCNDT/USMISSION USUN NEW YORK 1305
RUEHBS/USEU BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 000075

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TAGS: [EAGR](#) [ECON](#) [EFIN](#) [PREL](#) [PGOV](#) [BM](#)
SUBJECT: POLITICS OF EXPORTING RICE

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Classified By: Economic Officer Samantha A. Carl-Yoder for Reasons 1.4
(b and d)

11. (C) Summary. Exporting rice is a money-making business for the few who receive permits. Traditionally, the Myanmar Economic Corporation (MEC), a state-owned enterprise run by the Department of Defense, works with Regional Commanders to export any rice surpluses, funneling the profits back to the regime. In recent years, the GOB has also granted permits to a select group of well-connected private companies to export rice, although the MEC continues to dominate the rice export market. While Burma's official rice exports in the past two years have been virtually nonexistent, the GOB expects to export approximately 400,000 metric tons of rice to Bangladesh, Singapore, Malaysia, and Africa during the next six months, an increase of more than 1000 percent over last year's levels. While it is difficult to predict the regime's profits from rice exports, traders estimate that if it can meet export goals, MEC could earn several hundred million dollars from rice export sales. End Summary.

1000 Percent Increase

12. (SBU) Due to low crop production, unstable prices, and the inability to feed its people, the Burmese Government, once the world's largest exporter of rice, halted all exports of rice in the early 1990s. Rice exports occurred sporadically in the late 1990s when the government authorized the military, through state-owned Myanmar Economic Corporation (MEC), to export any surplus rice for profit. In 2003, the GOB dramatically altered its position on rice

exports when it implemented its New Rice Trade Policy. With the new law, the regime abolished the government monopoly on rice exports and allowed select private Burmese companies to participate in the export process. The law further stipulates that foreign companies can only export Burmese rice if they either work through the MEC or establish a joint venture with a Burmese company.

Burma's Official Rice Exports
2003-2008**

Year	Amount Exported*	Percent Change
2003	398,000	--
2004	115,297	-71
2005	219,624	90
2006	46,815	-79
2007	31,200	-33
2008**	400,000	1182

*metric tons

**expected export

13. (C) Rice export values have fluctuated widely during the past five years, due to low rice production, heavy floods in rice producing areas, and the high price of domestic rice. Official rice exports do not include the MEC's exports of surplus army rice, which averages 35,000 metric tons annually. In November 2007, the GOB announced that it would export approximately 400,000 metric tons of rice in the first six months of 2008, a more than 1000 percent increase over 2007 levels. According to SGS Consultants Managing Director Kyaw Tin, the GOB identified substantial rice surpluses in the Irrawaddy, Bago, and Sagaing Divisions, and gave the

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Regional Commanders of these divisions authority to export rice. Kyaw Tin explained that the Regional Commanders, who are responsible for accumulating surplus rice stocks from farmers, will not export the rice themselves, but instead will either sell the rice to MEC for a profit or submit to the Trade Council a list of Burmese companies that should receive rice export permits.

Military Dominance Continues

14. (C) Exporting rice from Burma is a complicated process, SGS Agricultural Business Manager Aung Kyaw Htoo told us. Although GOB regulations allow private companies to export rice, the military continues to dominate the export process. Each year, the MEC procures rice for government use at an artificially low price, often less than \$200 per ton. MEC is allowed to either sell any rice that it does not use at a higher price on the domestic market or export it, Aung Kyaw Htoo explained. In addition to exporting its own surplus rice, the MEC can also purchase excess rice from the Regional Commanders for export, Aung Kyaw Htoo noted. While the Regional Commanders prefer to sell rice directly to private companies for export because they earn a higher profit per ton, they must bow to the demands of the MEC Director, Secretary (1) Lt. General Thiha Thura Tin Aung Myint Oo,

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number five in the regime hierarchy.

15. (C) Because most of the profits earned from the sale or export of surplus rice go directly into MEC's coffers and on to the military, the military remains closely involved in rice exports, Kyaw Tin informed us. Although exact figures are not available, SGS Consulting estimates that MEC alone exported more than 50,000 metric tons of rice to Bangladesh and Africa in 2007. (Note: this amount was not included in GOB official rice export figures.) Embassy contact Anwar Hussain (PROTECT) told us that the MEC in 2007 earned between

\$75-100 per ton, which translates into a profit of between \$37-50 million.

Only the Connected Profit

¶6. (C) Because of the large profit margin, more and more Burmese companies seek permission to export rice. Kyaw Tin emphasized that since 2003, the GOB has only provided permits to companies with close ties to the regime, including Aye Yar Shwe Wa Company, owned by Aung Thet Mann; Yetana Win 30, owned by Khin Myint; Aye Ya Hin Tha, owned by the son of Secretary (1); and Diamond Star, owned by the Chair of the

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Rice Millers Association Dr. Ko Ko Gyi. These four companies receive the majority of permits each year, although most permits are for less than 20,000 metric tons each. Anwar Hussain confirmed that Aung Thet Mann's company receives approximately 50 percent of all GOB permits, with Khin Myint's company receiving 25 percent of rice export licenses.

He predicted that Aye Yar Shwe Wa Company would receive at least 10 export permits, allowing Aung Thet Mann to export more than 200,000 metric tons.

¶7. (C) Private companies exporting rice can make a large profit, Hussain told us. Most companies buy rice directly from farmers or from Regional Commanders at a price of \$280 a ton and sell it overseas at the market price, currently \$360 a ton in Bangladesh. Even with freight costs, which average \$42 a ton out of Rangoon, a company can make a profit of at least \$30 a ton. If a company ships out 20,000 metric tons,

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it can earn up to \$600,000.

¶8. (C) While the four favored companies work directly with companies overseas to export rice to Bangladesh, Malaysia, and Africa, some smaller Burmese companies enter into agreements with the MEC to export military rice, Hussain explained. However, working with MEC is risky. Companies must provide MEC with money up front to procure additional rice, and MEC has on several occasions cancelled business contracts after it has received the money. Thus, fewer companies will work with MEC, which forces MEC to rely on other military-owned operations, such as Myanmar Economic Holdings Ltd., for transportation and shipment, Kyaw Tin told us.

Mission Impossible?

¶9. (C) Kyaw Tin commented that it would be difficult for the MEC and private companies to export 400,000 metric tons in the next six months. Although the Regional Commanders from Irrawaddy, Bago, and Sagaing Divisions can sell surplus rice, they cannot ship it out of the division or to the port in Rangoon. The GOB instead expects them to export the rice to neighboring countries, even though India and China do not import much Burmese rice. Hussain told us that the MEC, which can move rice between the states and divisions, has brought rice to Rangoon to sell to private companies. Private companies including Aye Yar Shwe Wa have also smuggled rice to Rangoon for export, although smuggled quantities have totaled less than 50,000 metric tons to date.

¶10. (C) The GOB's policy of giving companies export permits for small amounts of rice also makes it difficult to find buyers, Aung Kyaw Htoo told us. Countries like Bangladesh want to import 200,000 metric tons at one time, rather than in increments of 10,000 to 20,000 tons. Instead of waiting for Burmese rice to become available, Bangladeshi buyers look elsewhere for the rice they need, Aung Kyaw Htoo asserted. Even if Burmese companies had permits to export more rice at one time, they do not have the financial wherewithal to purchase that much rice, Kyaw Tin explained. The Burmese

Government does not offer trade financing facilitation for smaller companies, and the larger international companies that have experience exporting large quantities do not want to work in Burma. Kyaw Tin predicted that private companies will be unable to meet GOB goals and that the Regional Commanders will be left holding large quantities of surplus rice.

Comment

¶11. (C) The Than Shwe regime commonly sets targets which it never reaches. We doubt the regime can meet this year's target either due to the poor infrastructure and mismanagement. However, the reported plans reveal the skewed priorities of the generals. Through state-owned enterprises like MEC and MEHL, the military continues to dominate all sectors of the Burmese economy, using their privileged position to direct funds to the senior leadership. Their greed knows no bounds, as the struggling farmers are forced to sell their rice at below market prices to the military, just so they can fill their own pockets.

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